

MINUTES
Policemen's Pension and Relief Fund
Thursday, July 19, 2012

On Thursday, July 19, 2012 at approximately 9:00 a.m., a meeting of the Board of Trustees of the Policemen's Pension and Relief Fund of the City of Little Rock, Arkansas was held in the Sister Cities Conference Room at City Hall.

Agenda Item #1. Call to Order/Roll Call

The Chairman called the meeting to order at approximately 9:00 a.m. and certified that a quorum of the Board was present. The Roll Call was as follows

PRESENT: Ms. Sara Lenehan Acting Chairman and Treasurer; Mr. Lee Harrod, Secretary; Mr. Farris Hensley, Member; Sgt. Rusty Watson, Member; Mr. James Arnold, Member; Mr. Kevin Tindle, Member. ABSENT: Mr. Bruce Moore.

Also present were Ms. Joan Adcock, Little Rock City Board of Director; Ms. Kim Chavis, Attorney for the City of Little Rock; Mr. Larry Middleton, Mr. Alex Jordan and Mr. Bo Brister of Stephens Capital Management, Financial Consultant for the Fund; Mr. Roger Smith, Board Lobbyist; Ms. Debbie Pharr, Ms. Kathy Lindsey and Mr. Christopher Davis of the Pension Fund Administrative Staff; Mr. Don Woods and Mr. Bob Wortham, Members of the Fund.

Agenda Item #2. Notification of News Media.

The Chairman noted that the media had been properly notified in a letter to the Arkansas Democrat Gazette dated July 7, 2012.

Agenda Item #3. Report from Board Financial Consultant

A. **June Financial Report.** Mr. Bo Brister, Financial Consultant for the Pension Fund, gave the June 2012 financial report and stated that on June 30, 2012, the market value of the total Fund was \$41,628,612. This represents a decrease in the account balance of \$38,843.43 since May 31, 2012. The component of this change was income of \$83,110.60. There were net contribution/withdrawals of (\$754,792.38). Of the market Fund balance, approximately \$22,109,113.20 was allocated to DROP. The over-all rate of return for the Fund during the month of June was 1.74% and 4.86% year to date. The average over-all effective rate of return from (1986-2011) was approximately 7.30%. It was also noted that the First Security Bank checking account currently has a balance of \$1,056,352.87

B. **Report and Discussion of DROP Accounts.** Mr. Hensley had previously asked the Fund's Financial Consultants to be prepared to provide a report to the Board regarding the physical financial impact to the Fund when DROP members leave their accounts in the Fund after traditional retirement. He had asked that the

consultants be prepared to include in their report both advantages versus disadvantages to the total Fund.

Mr. Middleton first addressed the impact to the Fund when DROP Members leave their DROP accounts in the Fund, following their retirement. He stated that Mr. Jody Carreiro, who is the State Actuary for the Arkansas Fire and Police Pension Review Board (PRB), had previously reported in a 2008 report addressed to the Fund, and said that DROP had a neutral or a slightly positive financial impact to the Fund. Mr. Middleton also explained that Mr. Carreiro had recently presented a report of July 18, 2012 to the Board, and it had also arrived at basically the same conclusions, that from an overall historical perspective DROP accounts remaining in the Fund has probably not had a negative financial impact.

Mr. Middleton further explained that although Stephen's Inc. is a money manager and not DROP advisors, the Pension Plan is a beneficiary of DROP assets. During times when the overall Fund experiences positive investment returns the Fund benefits from money held in DROP accounts, however during market trends when the Fund experiences negative returns DROP accounts are a liability to the overall Fund, and the greater the percentage of DROP accounts in the portfolio, the greater the impact is for the overall Fund. He said that ultimately, the Board should rely on advice from their actuary concerning DROP issues.

Mr. Middleton then addressed the financial impact to Members who leave their DROP accounts in the Fund. He explained that the zero percent (0%) floor is a definite advantage for DROP members, however receiving two percent (2%) less than the Fund's annual overall market rate of return is often seen as a disadvantage. He said that although annuities are marked to DROP members and are often seen as a minimal risk investment vehicle, DROP members should be cautioned because even though a three percent (3%) to five percent (5%) annualized rate of return may seem very attractive at the time, that would certainly not be the case if they were locked in at those rates, and interest rates again increased to the seventeen percent (17%) levels that were experienced in the nineteen seventies.

When asked what the financial impact to the overall Fund would be if the entire \$22,000,000.00 currently held in DROP accounts were taken out within the next six months, Mr. Middleton said that it would dramatically change the portfolio composition primarily to a fixed investment position, and would probably result in a lower annualized rate returns.

Mr. Wortham addressed the Board and said that he was concerned about the affect that DROP accounts have on the overall Fund for Members like him who are not DROP members. He said the Fund was first created, then DROP was later attached to the Fund, and he is now concerned about the Fund's ability to pay him and his wife the 50% retirement that was promised when he began his employment with the Department.

Mr. Woods thanked the Funds Financial Consultants and said that he believed they are some of the “brightest in the Country”, but does not believe that the minimal DROP gains to the Fund are worth the risk involved. He then passed out copies of House Bill 2254 and said that he does not believe the House Bill allows DROP Members who serve on the Board to vote on DROP issues, and asked the Board to have its Attorney review this law. He further asked for Board Members who are on DROP to abstain from voting on issues concerning DROP matters until the Funds Attorney could review the law.

After reviewing the previously referenced House Bill passed out by Mr. Woods, Mr. Hensley asked him where DROP members were even mentioned in it. He said that although they were not specifically mentioned in the Bill, he did believe that it prohibited them from voting on DROP related issues.

Ms. Lenehan said that the Pension Board’s Attorney would be reviewing House Bill 2254 which subsequently became Act 1244 of 2001 upon its enactment by the Arkansas Legislature, to determine if it is applicable to DROP Board Members specifically, concerning such issues.

Mr. Hensley said that the primary concern of Board Members is always the overall Funds financial stability, however he welcomed an attorney’s opinion concerning the issue, because if a Board Member who happened to also be a member of DROP could not vote on such issues, how could any Board Member have legally voted on past benefit increase issues when they too received a financial benefit, which the overall Fund is pay for.

Agenda Item #4. Approval of April Minutes

Ms. Lenehan made a motion to approve the July minutes and Mr. Tindel seconded the motion. A vote was then taken and the motion passed by a unanimous vote of the Board.

Agenda Item #5. Report from City Attorney –Ms. Kim Chavis

- A. **Eddeane Garrett case** - Ms. Chavis informed the Board that she is currently researching two components of the case, and requested that the matter be tabled.
- B. **Resolution for surviving spouse benefits** - Ms. Chavis told the Board that she has been unable to locate a past Board Resolution allowing a surviving spouse to be vested after five (5) years of marriage to a member, and asked that the matter be tabled until the August meeting.

Mrs. Lenehan asked Ms. Chavis to check with the PRB concerning the past resolution. In past meeting Mr. Moore, Mr. Harrod and Mr. Hensley all said they remembered the specific issue being discussed and thought it was included in one of the past benefit increase resolutions.

Agenda Item #6. Report of Board Lobbyist

Mr. Smith reported concerning recent changes during the past Arkansas Legislative Secession regarding the restructuring of the Arkansas Insurance Premium Tax allocation funding formula to local fire and police pension funds. The changes included allocating portions of the insurance premium taxes to all funds equally by calculating it biased on their standard fifty percent (50%) of base salary. He explained that although he believes it is consistent and a much more equitable approach for all Pension Funds involved, the funding for some Pension Funds in the State have been reduced because they had been receiving insurance premium tax funding based on more than fifty percent (50%) of salary. He said that even though every pension fund in the State is now receiving premium tax funding based on the same percentages of salary, he cautioned the Pension Board and the City of Little Rock to watch for any potential legislation in the next session that is designed to change the distribution formula.

Mr. Smith informed the Board that the Arkansas Municipal League now has a resolution that came out of their annual meeting this past June. It could effectively subsidize additional funding for old local pension plans that are under funded. It proposes to reduce city contributions to LOPFI, and reduce benefits to their members, in part by creating a separate lower benefit level "tier" for newly hired officers. Although the proposal's design would reduce LOPFI contributions for cities, there was no mandate included for funding old local pension funds that are significantly under funded. Mr. Smith said this plan is very similar to the one that the Arkansas State Police enacted several years ago for their officers.

Mr. Smith explained that currently the PRB makes recommendations to the Cities regarding the amount of contributions they should be paying to their local closed pension plans; however there is absolutely no mandate requiring them to do so. This system is very much unlike LOPFI, who does mandate a contribution level from cities to maintain financial stability. He told the Board that he does not believe the above referenced resolution is good for close plans or LOPFI, and would in fact have a negative impact for all plans.

Ms. Lenehan said that under current Governmental Accounting Standards Board (GASB) law, Cities would now have to report their LOPFI under funded liabilities, therefore when closed local pension plans consolidate with LOPFI the under funded liabilities will still have to be reported.

Mr. Smith addressed a previous discussion and said that he wanted to caution members who may be considering the purchase annuities, and let them know that most of them come with a transfer and early withdrawal fee.

Mr. Smith told the Board that he wanted to address another previously discussion matter concerning House Bill 2254 (Act 1244 of 2001) and said that he was a member of the Arkansas Legislature at the time it was passed, and said that it was clearly intended for

State Boards and not Local Pension Boards. He said the law did not apply to Local Pension Boards and believed the Attorney will clarify the interpretation and its intended purpose in law.

Mr. Smith told the Board that most Arkansas Public Pension Plans are in relatively good shape compared to states like California where we hear about cities and pension plans going bankrupt. He said that the reason for Arkansas' success is that Public Pension Plans are "lean" compared to most states, and for example the local Little Rock Police Pension Plan who does not even have a COLA is about as "lean" as one can get.

Ms. Lenehan told the Board that the City of Little Rock has never in the past received its fair share of State Premium Tax Allocation Funding for the Police Pension Plan, but now believes it is fair for all cities because of the new above referenced funding formula.

Agenda Item #7. Report of Funding Committee

(This committee met at 8:30 A.M. in the Sister Cities Conference Room)

- A. **Discussion of LOPFI consolidation** - Director Adcock, Chairman of the Funding Committee, reported that the Committee continued their discussions of a LOPFI consolidation with a COLA.

Director Adcock also said that the Committee had discussed having Mr. Arnold and one other Police Pension Board Member address the Little Rock City Board of Directors concerning the positive aspects of the new Police Pension Fund Website. She explained that it is important to let individual members of the City Board know that the Police Pension Board is now an organization "moving ahead" and welcome them to view the new website.

- B. **Report on Court Fines and Fees, etc.** - Director Adcock reported that the Committee also discussed, the need to start gathering information regarding any requested changes needed for the Fund so they could be submitted to the City Board for their review by September. She also suggested that the Pension Board began informing the City Board of various issues regarding LOPFI, and the administration of their Pension Fund.

Agenda Item #8. Report from Board Treasurer

- A. **Financial Report for June** - The Treasurer submitted copies of the un-audited financial report for the month of June 30, 2012. The Income/Loss to the plan year-to-date was (\$1,676,537). The report indicated that as of June 30, 2012, the total account Fund balance including the DROP was \$42,724,305. The net income/(loss) for the month of June was (\$218,088).

Copies of the June 30, 2012 expense and legal fee reports were also submitted. Total expenditures, excluding benefit related expenses, were \$11,815.55 for the month and \$24,542.48 year-to-date. Legal fees paid were \$930.00 year-to-date.

Mr. Harrod made a motion to approve the June financial report. The motion was seconded by Mr. Arnold and passed by a unanimous vote of the Board.

- B. Report on change of membership status** - Ms. Lenehan reported that Mr. Robert Lusk had submitted a retirement application effective July 28, 2012, in the monthly amount of \$2,133.54. Mr. Hensley made a motion to approve the retirement application of Mr. Lusk. The motion was seconded by Mr. Arnold, and passed by a unanimous vote of the Board.

Agenda Item #9. Report from Website Facilitator – Mr. James Arnold

Mr. Arnold reported that the new Police Pension Website has been online only since June 11, 2012, and had already received 5,400 (hits) visitors to the site. He said that additional members are signing up each day, and wanted to let everyone know that it is not necessary for anyone to “sign up” when leaving a post comment on the site. He said that only their first comment posting will be slightly delayed pending his approval as website facilitator. He said that he wanted to thank all members who have called and email him with positive comments concerning the website.

Agenda Item #10. Fund Members Comments. (Out of Agenda Order)

Mr. Woods and Mr. Wortham both attended the meeting. Their comments and questions were moved to Agenda Item #3-B.

Agenda Item #11. Other Business

Director Adcock requested that future meeting agenda's indicate under Item #2, that the meeting will be recorded and available for viewing on the Police Pension Website.

Director Adcock also asked that Mr. Arnold place an agenda giving the meeting locations and other information for the upcoming Public Input Infrastructure Needs Meetings on the website.

Mr. Hensley said he had recently received a request from a Member of the Fund to propose that members who become Medicaid eligible and discontinue their City health insurance, be allowed to retain their City Dental and optical insurance if it is not a direct cost to the City. Because Mr. Moore had been unable to attend the meeting, Mr. Hensley asked that the matter be placed on the August Meeting Agenda. Mr. Harrod said that he would place the item on the Agenda under Health Insurance related matters.

Mr. Smith reported that in the November general election, an issue would be on the ballot for Arkansas voters, to allow Cities in Arkansas to issue Bonds designed to help finance the under funded liability of public pension fund in the State. If passed, cities within the state such as Little Rock would then have the option to place a local bond

issue on the ballot for local voters. He believes that members of local pension funds should support this issue in November.

Agenda Item #12. Adjourn Meeting

Upon conclusion of pension business, Mr. Harrod made a motion to adjourn the meeting at approximately 11:30 A.M. The motion was seconded by Mr. Hensley and passed by a unanimous vote of the Board.

Respectfully Submitted,

Lee Harrod
Board Secretary